

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16548
October 25, 2001**

R E S O L U T I O N

RESOLUTION T-16548. FISCAL YEAR 2002-2003 BUDGET AND A 0.30% SURCHARGE RATE FOR THE CALIFORNIA TELECONNECT FUND ADMINISTRATIVE COMMITTEE FUND.

BY LETTER REQUEST OF THE ADMINISTRATIVE COMMITTEE TO THE EXECUTIVE DIRECTOR DATED MAY 15, 2001.

SUMMARY

This Resolution adopts the Fiscal Year 2002-2003 budget of \$159.349 million and maintains a surcharge rate of 0.30% for the California Teleconnect Fund Administrative Committee Fund (CTF). This budget would meet the anticipated demand for CTF eligible services for the Fiscal Year 2002-2003 by schools, libraries, hospitals/clinics, and community-based organizations and is consistent with the requirements of Public Utilities Code Sections 270 through 281.

BACKGROUND

1. Decision (D.) 96-10-066

In D. 96-10-066, the Commission established the CTF Program to provide discounted services to qualifying schools, libraries, government owned and operated hospitals/clinics and community-based organizations. All end users of intrastate telecommunications service fund the CTF Program through a surcharge payment.¹ To meet the needs of the CTF Program, the Commission adjusts the surcharge accordingly.

¹ The following services are not subject to a CTF surcharge: discounted services under the Universal Lifeline Telephone Service (ULTS) Program; coin-sent paid calling; debit card messages; one-way radio paging; usage charges billed to pay telephones; customers receiving services under existing contracts that were executed on or before September 15, 1994; directory advertising; charges for access or interconnection by

2. CTF Surcharges

The following details the CTF surcharges since program inception:

<u>Decision/Resolutions</u>	<u>Surcharge Rate</u>	<u>Effective Date</u>
D.96-10-066 (October 25, 1996)	0.41%	February 1, 1997
Resolution T-16165 (July 2, 1998)	0.05%	August 1, 1998
Resolution T-16374 (December 16, 1999)	0.05%	January 1, 2000
	0.185%	January 1, 2001
Resolution T-16437 (September 21, 2000)	0.185%	July 1, 2001
Resolution T-16584 (October 10, 2001)	0.30%	November 1, 2001

In D.96-10-066, the Commission adopted a 0.41% surcharge to provide an initial funding level of \$50 million for the CTF Program. The Commission ordered the Telecommunications Division (TD) staff (1) to monitor the size of the CTF fund over the course of the coming years; (2) to notify the Commission when one-half (1/2) of the monies allocated has been appropriated, when three-fourths (3/4) of the allocated monies have been appropriated, and when all the allocated monies have been spent; and (3) to keep the Commission informed as to whether adjustments to the funding levels might be needed. The \$50 million is considered the annual budget cap for the CTF Program. (See discussion below on CTF Program Current Status.)

It should be noted that the CTF budget was prepared on a calendar basis and subsequently was changed to a fiscal year basis, consistent with the requirements of Public Utilities (P.U.) Code Sections 270 through 281. See discussion below.

3. P.U. Code Sections 270 through 281

The California Legislature passed Senate Bill 669 (SB 669) and the Governor signed it in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, are codified as Chapter 1.5 (beginning with Section 270) to Part 1, Division 1 of the P.U. Code. Section 270 provides for the creation of six funds, including the CTF, in the State Treasury. The result is the transfer of funds in the trustee account of the CTF Program and of the other telecommunications public programs except the DDTP Program,² to the State Treasury

Commission-certificated carriers for resale to the public (such services, when purchased by end-users are subject to surcharge), and; taxes and amounts collected for other Commission authorized surcharges (such as the ULTS).

beginning October 1, 2001, consistent with the state budgeting process which is on a fiscal year basis.

The following are the major requirements of SB 669, as amended by SB 742, which have been included in the P.U. Code:

1. **Creation of an Advisory Board.** Section 280(a) provides for the creation of the CTF Advisory Board, to develop, to implement, and to administer the CTF Program.³
2. **Transfer of CTF Funds into the State Treasury.** Section 280(b) provides that all revenues collected by the telephone corporations authorized to fund the CTF Program be submitted to the Commission. Furthermore, Section 280 (b) provides that (a) beginning October 1, 2001 and thereafter, the Commission shall transfer the moneys received and all unexpended revenues collected prior to October 1, 2001 to the Controller for deposit in the CTF Administrative Committee Fund, and (b) all interest earned by moneys in the fund shall be deposited in the fund.
3. **Submission of an annual budget.** Section 273(a) provides that the created CTF advisory board submit an annual budget to the Commission, who shall act on the submitted budget within ninety (90)-calendar days after the receipt of the CTF budget. For Fiscal Year 2002-2003, the CTF Administrative Committee filed the budget through a letter request on May 15, 2001; for Fiscal Year 2003-2004, the CTF budget should be submitted on or before June 1, 2002.
4. **Audits.** Section 274 provides for the financial and compliance audits of CTF Program costs and activities at least once every three years, beginning July 1, 2002.

² The Commission has established eight telecommunications public programs, namely: (1) California High Cost Fund-A (CHCF-A); (2) California High Cost Fund B (CHCF-B); (3) California Teleconnect Fund (CTF); (4) Universal Lifeline Telephone Service (ULTS); (5) Deaf and Disabled Telecommunications Program (DDTP); (6) Payphone Service Providers Enforcement (PSPE); (7) Telecommunications Devices for the Deaf Interim Placement Committee (TPIC); and (8) Public Policy Payphone Program (PPPP). DDTP and TPIC are funded through one fund; PSPE and PPPP are also funded by one fund. Thus, there is a total of six funds for eight of the telecommunications public programs.

³ Rulemaking (R.) 01-08-002 was instituted by the Commission to adopt the new charters for each of the corresponding SB 669 advisory boards. Through Decision 01-09-064, the Commission adopted new charters for the CTF Program and for the other telecommunications public programs to conform to P.U. Code Sections 270, et al.

Since the CTF Program's budget will be included in the State budget consistent with the provisions of P.U. Code Sections 270, et al, it should be noted that any delay in the approval of the State budget (which includes the CTF budget expenses) means a delay in the payment of any CTF claims and/or other expenses even if the claims and expenses have been approved.

4. CTF Program Current Status

Additional CTF Eligible Services and CTF Budget

On March 28, 2001, the TD staff conducted a workshop to address the concerns of the California Department of Education (CDE) and Pacific Bell for access to the information superhighway that would require high-end services that are not now functional equivalents of services currently offered under the CTF Program.⁴ In this workshop, the issues of CTF eligible entities and budget cap were also discussed. On May 25, 2001, TD submitted the workshop report, including TD's recommendations, to the Commission. Subsequently, the Commission adopted, among other things, TD's recommendations to add services higher than DS-3 for schools and libraries that would allow access to the Digital California Project (DCP) network infrastructure and to increase the CTF annual budget cap to \$55 million for claim payments.⁵

Through this Resolution, the TD notifies the Commission that TD estimates that the approved CTF applications will reach approximately \$55 million in Fiscal Year 2002-2003. This estimate takes into account growth in the demand for CTF eligible services, including high-end services recently approved by the Commission. This estimate does not include the effect of the federal E-Rate discount program for schools and libraries; the E-Rate discount is applied before the state CTF discount rate.

Letter Request Filed by the CTF Administrative Committee

In this letter request, the CTF Administrative Committee proposes a Fiscal Year 2002-2003 budget of \$57.1 million for the CTF Program. This request would result in a

⁴ The California Legislature approved the creation of a statewide communications infrastructure or an information superhighway that would facilitate (a) delivery of advanced education programs and services, and (b) integration of rich-on line content and resources into regular education curricula and services. This Project is known as the Digital California Project K-12 Statewide Network (DCP). The Corporation for Education Network Initiatives in California (CENIC) is responsible for coordination, planning, and implementation of DCP's network infrastructure.

⁵ Resolution T-16542 dated July 12, 2001. In this resolution, the Commission also approved the addition of services higher than DS-3 as eligible CTF services.

surcharge rate of 0.31%. The proposed budget includes estimates for expenses, revenues, and a fund balance at the end of the fiscal year. The request of the Administrative Committee included estimates relating to the implementation of the P.U. Code Sections 270, et al, known at that time. Since the receipt of Administrative Committee's letter request, more recent expense information relating to the transfer of the CTF funds into the State Treasury became known; TD estimated these CTF Program expenses. This Resolution also discusses TD's additional expense estimates.

NOTICE/PROTESTS

The notice of filing the Budget Letter Request by the CTF Administrative Committee was published in the Commission Daily Calendar of May 17, 2001. No protest to this Letter Request has been received.

COMMENTS ON DRAFT RESOLUTION

In accordance with P.U. Code Section 311 (g) (1), a draft resolution prepared by the TD staff was mailed on July 24, 2001, to the parties of record to Rulemaking (R.)95-01-020 and Investigation (I.) 95-01-021. A Notice of Availability was mailed to all telecommunications carriers advising them of the availability of this draft resolution in the Commission's web site: www.cpuc.ca.gov/statis/industry/telco/resolutions/index.htm and of the dates for submitting any public comments. The Notice of Availability also informs parties that the final Resolution that will be adopted by the Commission will be posted and available at the same web site. This means of distribution is consistent with the Commission's commitment to utilize the CPUC Internet for distributing Commission orders and information.⁶ TD did not receive any comments on this Resolution.

DISCUSSION

Attachment A to this Resolution details the proposed budget by the CTF Administrative Committee. As mentioned-above, TD's proposed adjustments based on more recent expense information relating to the implementation of the requirements of P.U. Sections 270, et al, are also discussed herein.

1. Projected Billing Base

In its letter request, the CTF Administrative Committee used a billing base of approximately \$19.847 billion. However, in the recent months there has been a sharp downturn in the telecommunications revenues subject to surcharges reported to the Commission by the telecommunications carriers. TD recalculated the projected billing

⁶ 1998 CPUC Business Plan.

base and estimates \$15.873 billion for Fiscal Year 2002-2003. Since TD's estimate is based on more recent information, it is reasonable to adopt TD's estimate.

2. Fiscal Year 2002-2003 Expenses

(a) Claim Payments. Based on the records of approved CTF applications, there is an estimated \$7 million annual growth in the demand for CTF eligible services. For the first quarter of 2001, the records indicate a regular flow of CTF applications from qualified entities. There is also heightened demand for high-end services to access a statewide network infrastructure that allows advanced network capability for each county and school district in California. It is estimated that annual demand for high-end services totals \$4 million. The Administrative Committee proposes a total estimate of \$55 million for claim payments to qualified CTF entities. The Administrative Committee's estimate is consistent with the revised CTF budget recently approved by the Commission for claim payments in Resolution T-16542.⁷

In Resolution T-16542, among other things, the Commission also adopted time limits or sunsets for filing CTF claims that have been unclaimed since the Program inception.⁸ TD estimates \$100 million and \$3 million (for interest payments) for these unclaimed CTF claims for which time limits have been adopted. We note that a budget was also adopted for unclaimed CTF claims in Fiscal Year 2001-2002, however, the time limits adopted encompass Fiscal Year 2001-2002 and Fiscal Year 2002-2003. We find it appropriate to include a budget for these unclaimed CTF claims with time limits or sunsets in the Fiscal Year 2002-2003 and we are adjusting the CTF claim payments accordingly to \$156.8 million. Again, we remind carriers that "any California Teleconnect Fund claims filed after the established time limits or sunsets shall not be paid."⁹

(b) Audits. The Administrative Committee estimates \$1.8 million for audits, (financial, claims, remittance, and compliance). TD decreased the expense on the financial audit and increased the expense on the claims audit based on

⁷ In Resolution T-16542, the Commission approved a \$55 million annual budget cap for CTF claim payments beginning Fiscal Year 2002-2003.

⁸ The time limits or sunsets adopted in Resolution T-16542 are: (a) a two-year period from the due date for January 2000 and thereafter CTF claims; (b) October 12, 2001 for February 1997 through December 1997 CTF claims; (c) February 4, 2002 for January 1998 through June 1999 CTF claims; and (d) March 4, 2002 for July 1999 through December 1999 CTF claims.

⁹ Ordering Paragraph No. 7 of Resolution T-16542.

most recent expenses incurred for these types of audits. TD's estimates are reasonable and should be adopted.

(c) Banking Fees. The Administrative Committee proposes zero for banking fees. Since the telecommunications service providers would continue to remit the surcharge collected associated with the CTF Program to a financial institution, the budget for lock box should be maintained. Thus, we are adopting TD's estimate of \$18,000 for lock box fees.

(d) Committee Expenses. The Administrative Committee proposes no budget for per diem/travel expenses. The Commission adopted a new charter for the CTF Program and for the other telecommunications public purpose programs consistent with the requirements of P.U. Code Sections 270, et al., through D.01-09-064. The new charter details the processes for filing per diem and other expenses for eligible board members. TD estimates \$9,000 for per diem and other expenses to eligible CTF board members. TD's estimate should be adopted.

(e) Administrative/Staff. The Administrative Committee proposes \$325,000 for internal staff in the Information and Management Services Division who would carry out work responsibilities associated with the implementation and ongoing operations of P.U. Code Sections 270, et al. TD recommends inclusion of the allocated amount of \$151,000 for Administrative/Staff expenses. TD's recommendation should be adopted.

(f) Interagency Cost. Interagency Costs include expenses associated with the implementation of P.U. Code Sections 270, et al; TD includes \$361,000 for this cost.

Based on the above-mentioned expenses, TD proposes (a) total CTF related expenses of \$159.349 million, (b) a projected ending balance of \$4.761 million, and (c) a surcharge rate of 0.30% for Fiscal Year 2002-2003. We believe TD's proposals are reasonable and should be adopted.

3. Fiscal Year 2002-2003 Surcharge Rate Level and Fiscal Year Fund Balance

Based on the estimated Fiscal Year 2002-2003 total expenses of \$159.349 million and projected ending balance of \$4.761 million, it is appropriate to maintain for Fiscal Year 2002-2003 the 0.30% surcharge rate recently adopted beginning November 1, 2001.

4. Advice Letter Filing

The adoption of the CTF Fiscal Year 2002-2003 budget will not result in a revised surcharge rate. Thus, all telecommunications carriers that collect surcharges associated with the CTF Program need not file an advice letter to change the CTF surcharge rate for Fiscal Year 2002-2003.

FINDINGS

1. The CTF Administrative Committee estimates \$19.847 billion projected billing base for Fiscal Year 2002-2003. TD recalculated the projected billing base and estimates \$15.873 billion based on the telecommunications revenues subject to surcharges reported to the Commission by the telecommunications carriers in the recent months. TD's estimate should be adopted.
2. The CTF Administrative Committee estimates \$55 million CTF budget expenses for claim payments for the Fiscal Year 2002-2003 consistent with the recently revised approved Commission budget for CTF claim payments in Resolution T-16542. In Resolution T-16542, the Commission also adopted time limits or sunsets for filing unclaimed CTF claims. TD estimates additional \$100 million and \$3 million for unclaimed payments and interest payments, respectively. TD's estimates should be adopted.
3. The Administrative Committee estimates a total of \$57.125 million for CTF related expenses. TD's estimates are as follows:

a) Claim Payments (including prior/unclaimed claims and interest payments	\$ 156,800,000
b) Audits	2,010,000
c) Banking Fees	18,000
d) Committee Expenses	9,000
e) Administrative/Staff	151,000
f) Interagency Cost	361,000
TOTAL	<hr/> \$159,349,000

4. Based on TD's CTF expense estimates listed in Finding No. 2 above, TD recommends a 0.30% surcharge rate and a projected ending balance of \$4.761 million.
5. TD's recommended total expense estimates of \$159.349 million and surcharge rate of 0.30%, resulting in \$4.761 million ending balance, should be adopted.

6. The adoption of the CTF Fiscal Year 2002-2003 budget will not result in a revised CTF surcharge rate. Thus, all telecommunications carriers that collect the CTF surcharge rate need not file an advice letter revising the CTF surcharge rate for Fiscal Year 2002-2003.
7. The CTF budget for Fiscal Year July 1, 2003 through June 30, 2004 should be submitted to the Commission Executive Director on or before June 1, 2002.

THEREFORE, IT IS ORDERED that:

1. A Fiscal Year 2002-2003 budget of \$159.349 million, as detailed in Attachment A to this Resolution, is adopted for the California Teleconnect Fund Administrative Committee Fund.
2. A 0.30% surcharge rate shall be applied to all intrastate billings, subject to surcharge, rendered on or after July 1, 2002.
3. All telecommunications carriers who are required to collect the California Teleconnect Fund Administrative Committee Fund surcharge shall continue to collect a 0.30% surcharge effective July 1, 2002, on service rates and charges of all intrastate end users, except those that have been specifically excluded. The surcharge revenues generated by the 0.30% surcharge will provide the funds for the California Teleconnect Fund Administrative Committee Fund.
4. The combined California Public Utilities Commission Telephone Surcharge Transmittal form currently in use shall continue to reflect the surcharge rate of 0.30%.
5. The California Teleconnect Fund Administrative Committee Fund budget for Fiscal Year July 1, 2003 through June 30, 2004 shall be filed with the Executive Director on or before June 1, 2002.

October 25, 2001

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 25, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

ATTACHMENT A				
CALIFORNIA TELECONNECT FUND ADMINISTRATIVE COMMITTEE FUND (CTF)				
FISCAL YEAR (FY) 2002-2003 BUDGET				
(JULY 1, 2002 - JUNE 30, 2003)				
(\$ in 1,000's)				
		FY 2002-2003		B
LINE NO.	ITEMS	CTF ADMINISTRATIVE COMMITTEE	COMMISSION	
		PROPOSED FY 2002-2003 (JUL 02 - JUN 03)	ADOPTED FY 2002-2003 (JUL 02 - JUN 03)	
1	BEGINNING FUND BALANCE	10,037	116,491	
	REVENUES			
2	PROJECTED BILLING BASE	19,847,690	15,873,000	
3	SURCHARGE RATE	0.31%	0.30%	
4	SURCHARGE REVENUE (L2 X L3)	60,788	47,619	
	OTHER INCOME			
5	INVESTMENT INCOME	0	0	
6	INTEREST	0	0	
7	PENALTY	0	0	
8	TOTAL OTHER INCOME (L5+L6+L7)	0	0	
9	TOTAL REVENUE (L4+L8)	60,788	47,619	
	PROGRAM EXPENSE			
10	CLAIM PAYMENTS	53,800	53,800	
11	PRIOR CLAIM PAYMENTS		100,000	
12	INTEREST PAYMENTS	1,200	3,000	
13	TOTAL PAYMENTS (L10 + L11 + L12)	55,000	156,800	
	AUDITS			
14	FINANCIAL AUDIT	100	10	
15	COMPLIANCE AUDIT	600	500	
16	REMITTANCE AUDIT	600	600	
17	CLAIMS AUDIT	500	900	
18	TOTAL AUDITS (L14 + L15 + L16 + L17)	1,800	2,010	
	BANKING FEES			
19	TRUST	0	0	
20	LOCKBOX	0	18	
21	TOTAL BANKING FEES (L19+L20)	0	18	
	COMMITTEE EXPENSES			
22	PER DIEM	0	4	
23	TRAVEL & OTHER EXPENSES	0	5	
24	TOTAL COMMITTEE EXPENSES (L22+L23)	0	9	
25	TOTAL PROGRAM EXPENSES (L13+L18+L21+L24)	56,800	158,837	
	ADMIN/STAFF			
26	EXTERNAL STAFF	0	0	
27	SB 669 INTERNAL STAFF	325	151	
28	TOTAL ADMIN/STAFF (L26+L27)	325	151	
29	INTERAGENCY COST	0	361	
30	TOTAL EXPENSES (L13+L18+L21+L24+L28+L29)	57,125	159,349	
31	PROJECTED ENDING BALANCE (L1+L9-L30)	13,750	4,761	
NOTES: 1. Proposed FY 2002-2003 (Column A) was proposed in Draft Resolution T-16548.				
2. The FY 2003-2003 projected billing base (Column B, line 2) of \$15.873 billion represents a growth rate of 1.8% (UCLA Anderson Forecast, September 17, 2001) from FY 2001-2002.				
3. Proposed Adjusted FY 2002-2003 (Column B) reflects the costs associated with the implementation of SB 669 on October 1, 2001.				
As required by SB 669, CTF program funds must be transferred to the the State Treasury on October 1, 2001.				
4. The Beginning Fund Balance (Column B, L1) is the estimated CTF Program Fund Balance at the end of FY 2001-2002 (\$16.491 million) plus the estimated unclaimed prior claims for years 1998, 1999, 2000 & 2001 (\$100M).				
5. Since Program funds are transferred in the State Treasury beginning October 1, 2001, no interest amounts are calculated.				
6. Claim payments are based on historical approved CTF claim applications plus growth in demand for CTF services.				
Prior claims payments are estimated based on the claims that have not been filed for years 1998, 1999, 2000 & 2001.				
Interest payment is calculated for CTF claims for years 1998 & 1999, per Resolution T-16381.				
7. Lockbox fees are calculated for FY 2002-2003.				
8. It is assumed that there will be 2 Committee members who will be eligible for per diem/ travel expenses.				
9. It is assumed that SB 669 interagency costs begin in FY 2002-2003.				